

**The Ladders**<sup>®</sup>

THE MOST \$100K+ JOBS



**FIND JOBS**

**CNNMoney.com**

 **PRINT THIS**

Powered by  Clickability

 Click to Print

[SAVE THIS](#) | [EMAIL THIS](#) | [Close](#)

## How Facebook is taking over our lives

**President Obama used it to get elected. Dell will recruit new hires with it. Microsoft's new operating system borrows from it. No question, Facebook has friends in high places. Can CEO Mark Zuckerberg make those connections pay off?**

**Only \$100k+ Jobs**



**The Ladders**<sup>®</sup>

**FIND JOBS**

By [Jessi Hempel](#), writer

Last Updated: February 19, 2009: 10:51 AM ET

(Fortune Magazine) -- Facebook held no appeal for Peter Lichtenstein. The New Paltz, N.Y., resident had checked out so-called social networking sites before, and he wasn't impressed. ("MySpace," he recalls, "was ridiculous.")

A chiropractor and acupuncturist, Lichtenstein was already a member of a few professional web-based user groups. The last thing he needed was another message box to check. Then a buddy posted a link to photos from a trip to Thailand and India on his Facebook page and flatly refused to distribute them any other way. The friend's assumption: Duh - everyone's on Facebook.

And so Lichtenstein, 57, recently became an official member of the Facebook army, 175 million strong and, Facebook says, growing at the astounding rate of about five million new users a week, making it a rare bright spot in a dismal economy. If Facebook were a country, it would have a population nearly as large as Brazil's. It even edges out the U.S. television audience for Super Bowl XLIII, which drew a record-setting 152 million eyeballs.

But these days the folks fervently updating their Facebook pages aren't just tech-savvy kids: The college and post-college crowd the site originally aimed to serve (18- to 24-year-olds) now makes up

less than a quarter of users. The newest members - the ones behind Facebook's accelerating growth rate - are more, ahem, mature types like Lichtenstein, who never thought they'd have the time or inclination to overshare on the web. It's just that Facebook has finally started to make their busy lives a little more productive - and a lot more fun.

Try logging in to quickly check a message, and you may find yourself scrolling through new baby photos from that guy who used to sit next to you in Mr. Peterson's English class. How did such a goofball end up with such a cute baby? And how'd he find you here anyhow? Soon you're checking the friends you have in common. This addictive quality keeps Facebook's typical user on the site for an average of 169 minutes a month, according to ComScore. Compare that with Google News, where the average reader spends 13 minutes a month checking up on the world, or the *New York Times* website, which holds on to readers for a mere ten minutes a month.

The "stickiness" of the site is a key part of 24-year-old CEO Mark Zuckerberg's original plan to build an online version of the relationships we have in real life. Offline we bump into friends and end up talking for hours. We flip through old photos with our family. We join clubs. Facebook lets us do all that in digital form. Yet we also present different faces to the different people in our lives: An "anything goes" page we share with pals might not be appropriate for office mates - or for the moms and grandmas who increasingly are joining the site. Basic privacy controls today allow users to share varying degrees of information with friends, but when I recently met with Zuckerberg in Palo Alto, he waxed philosophical about eventually giving a user the ability to have a different Facebook personality for each Facebook friendship, a sort of online version of the line from Walt Whitman's "Song of Myself": "I contain multitudes."

His ultimate goal is less poetic - and perhaps more ambitious: to turn Facebook into the planet's standardized communication (and marketing) platform, as ubiquitous and intuitive as the telephone but far more interactive, multidimensional - and indispensable. Your Facebook ID quite simply will be your gateway to the digital world, Zuckerberg predicts. "We think that if you can build one worldwide platform where you can just type in anyone's name, find the person you're looking for, and communicate with them," he told a German audience in January, "that's a really valuable system to be building."

Just how valuable is subject to great debate. Microsoft ([MSFT](#), [Fortune 500](#)) in 2007 invested \$240 million for a 1.6% stake in the company, giving Facebook a valuation of about \$15 billion. But according to a June 23, 2008, court proceeding, the company values itself at \$3.7 billion. (With a 20% to 30% stake, Zuckerberg quite possibly is the world's youngest self-made billionaire, on paper at least.) A big part of the challenge in assigning a valuation to Facebook is that its financial results don't come anywhere near to matching its runaway success signing up members: The site pulled in estimated revenues of just \$280 million last year, and sources close to the company say it didn't break even.

Indeed, sometimes it seems as if everyone but Facebook is capitalizing on the platform. The Democratic Party in Maine is using it to organize regular meetings. Accounting firm Ernst & Young relies on the site to recruit new hires, and Dell ([DELL](#), [Fortune 500](#)) will soon do the same. Microsoft's new operating system has a slew of features lifted straight from Facebook's playbook.

Zuckerberg knows this is a make-or-break moment for the company he founded five years ago in his linoleum-floored Harvard dorm room. He must figure out how to continue to add new members and make Facebook vital to its mass audience without alienating the kids and early adopters who helped popularize the site. (Growth has leveled off at MySpace, the original mega--social networking site with 130 million members, and it may wind up as a playground for music lovers.)

He'll have to fend off search giant Google, which has its own grand plan to profit from social networks. And he has to live up to his change-the-world bravado: The Net is riddled with examples of companies

and services that promised to be the next great communications platform - AOL (owned by Fortune's parent) and Yahoo ([YHOO](#), [Fortune 500](#)), to name two - but failed to do so.

To help Facebook figure out how to profit from its scale and popularity, Zuckerberg has brought in a chief operating officer, Sheryl Sandberg, who built Google's money-minting AdWords program. YouTube's former chief financial officer, Gideon Yu, runs the finance operation. And the board is packed with old-school cred (*Washington Post* publisher Don Graham and venture capitalist Jim Breyer) and tech smarts (PayPal co-founder Peter Thiel and Netscape founder Marc Andreessen). Zuckerberg, who favors jeans and T-shirts, has taken to wearing ties beneath his black North Face jacket because, as he tells his colleagues, "2009 is a serious year."

And not just for Facebook. Few ultra-young tech company founders manage to hold on to the CEO reins as long as Zuckerberg has. They either go on to become the stuff of legend (Bill Gates) or flame out fabulously. There are certainly those who wonder whether the wunderkind is in over his head, punting on profitability when every other company in Silicon Valley is under enormous pressure to make money. And what's a stiff, reticent guy who'd rather be writing code doing in the CEO's job in the first place? Sure, Zuckerberg's done pretty well so far, creating a site that has won a rabid following among mainstream web users. But a lot of those people were once passionate about their AOL accounts too. Zuckerberg has our attention. What's he going to do with it?

### A digital world

Mark Zuckerberg has always liked to build things. I first spoke with him in the summer of 2005 when he was still crashing on a friend's couch in Menlo Park, Calif.? He was on his cellphone, pacing back and forth in the backyard as he explained his parents' reaction to his project: "The thing I made before Facebook almost got me kicked out of school," he said, referring to Facemash, a site that let people rate photos. He went before the school's administrative board to answer questions about how he gathered data. "When I started making Facebook, [my parents] were, like, don't make another site." Then all his Harvard classmates - as well as students from the rest of the Ivy League - joined, and he spent the remainder of his college money on servers. So much for school.

Even in our initial interview, Zuckerberg was clear that he wasn't simply creating another online tool for college kids to check each other out. He called Facebook a "social utility" and explained that one day everyone would be able to use it to locate people on the web - a truly global digital phone book. And he also knew that if the site were easy to use, a combination of peer pressure and the so-called network effect would, like, totally kick in. Since that summer afternoon Zuckerberg has passed legal drinking age, found an apartment, accepted more than \$400 million in venture capital, and attended the World Economic Forum in Davos, Switzerland, several times.

But Zuckerberg makes it clear to me that he's still intensely focused on connecting the entire world on Facebook - only now his vision goes well beyond the site as a digital phone book. It becomes the equivalent of the phone itself: It is the main tool people use to communicate for work and pleasure. It also becomes the central place where members organize parties, store pictures, find jobs, watch videos, and play games. Eventually they'll use their Facebook ID as an online passkey to gain access to websites and online forums that require personal identification. In other words, Facebook will be where people live their digital lives, without the creepy avatars.

To achieve that goal Zuckerberg has brought in plenty of seasoned veterans, like Google's Sandberg, but he's also surrounded himself with young enthusiasts who share his view that Facebook can change the way people live and work. Like the early employees at Google, most won't see 30 for a long time. Pass by a receptionist, a straw-haired woman with funky glasses, and you'll notice she's updating her Facebook profile. Stroll through the stretch of University Avenue in Palo Alto that houses the company's different offices (it is getting ready to consolidate operations in new digs in April) and you'll be able to differentiate the Facebook employees from the venture capitalists who toil in offices

nearby: The Facebookers are the super-young brainiacs in ratty T-shirts and jeans.

At times it may seem hard to reconcile Zuckerberg's lofty aspirations for Facebook with the utterly commonplace content that users create on the site. Consider 25 Random Things, a new take on the chain letter that has grown so popular it was written up in the *New York Times* Style section. You list 25 supposedly random things about yourself and send the note on to 25 of your friends (who are supposed to do the same), but your randomness also ends up on display to any gawker who may be surfing your profile. The items range from the banal (No. 17: I never, ever, ever throw up. Like five times in my adult life) to the intimate (No. 2: I knew I was gay in the sixth grade but didn't tell anyone until I was 19). The feature is high profile - some 37,500 lists sprang up in just two weeks - but taken as a whole it just seems like a lot of user-generated babble.

Yet it is that very babble that makes Facebook so valuable to marketers. Imagine if an advertiser had the ability to eavesdrop on every phone conversation you've ever had. In a way, that's what all the wall posts, status updates, 25 Random Things, and picture tagging on Facebook amount to: a semipublic airing of stuff people are interested in doing, buying, and trying. Sure, you can send private messages using Facebook, and Zuckerberg eventually hopes to give you even more tools to tailor your profile so that the face you present to, say, your employer is very different from the way you look online to your college roommate. Just like in real life. But the running lists of online interactions on Facebook, known as "feeds," are what make Facebook different from other social networking sites - and they are precisely what make corporations salivate.

### The stream

Every user on Facebook has two feeds. There's a personal feed, which you'll find on your profile page along with your photo and list of interests. Every time you log a status update, comment, or video post, that interaction is captured and stored for your review; those changes also become fodder for a second news feed that runs on your home page, the first page you see when you log on to the site.

That feed keeps tabs on all the interactions your friends are having (and alerts friends to updates you've made on your personal feed). If your brother RSVP'd to a dinner party, for example, you might be notified about it, even if you weren't invited to attend. And if you change your profile photo, it may let your brother know. Like Facebook itself, the feeds are subject to the network effect: The more data you share and interact with, the more robust your news feed becomes.

Zuckerberg calls the sum of those interactions the "stream," and it's his newest obsession. Unlike Google, which uses complex algorithms to serve up advertisements based on what you search for, Facebook lets you help "curate" your feeds. The information that pops up is partly a result of controls you establish in your privacy settings and feedback you provide to Facebook. But Facebook also can track your behavior, and if the site notices you're spending a lot of time on the fan page of a certain movie star, for example, it will send you more information about that celebrity.

Needless to say, marketers would love to tap into that information. "If there are 150 million people in a room, you should probably go to that room," says Narinder Singh, chief product officer for Appirio, which helps big companies like Dell and Starbucks ([SBUX](#), [Fortune 500](#)) find ways to connect with users over the site. "It's too attractive a set of people and too large a community for businesses to ignore."

Yet because businesses haven't yet effectively infiltrated Facebook, its users may be under the mistaken impression that they aren't under surveillance. "What I like is that it doesn't bombard you with advertisements, so it feels really personal," says Heather Rowley, a 35-year-old photographer in Berkeley. It seems inevitable that some members will feel betrayed or uneasy when ads based on casual chats with friends start to appear on their feeds.

Facebook already has had one brush with member backlash in 2007 when it introduced a feature called Beacon, which allowed members to see what websites their friends visited, and even showed purchases on e-commerce sites. Users protested vehemently - one even filed a lawsuit on privacy grounds - and Facebook apologized.

Now the company is trying a slightly different approach. A feature called Facebook Connect lets users log on to company websites using their Facebook logins. The system, which dovetails with Zuckerberg's vision of a Facebook account as a form of personal ID on the web (privacy settings and all), appeals to advertisers for a couple of reasons. When a user logs on to a third-party site using Facebook Connect, that activity may be reported on her friends' news feeds, which serves as a de facto endorsement. The tool also makes it easy for members to invite their friends to check out the advertiser's site. Starbucks, for example, uses Facebook Connect on its Pledge5 site, which asks people to donate five hours of time to volunteer work. If you sign in using a Facebook account, a new screen, a hybrid of Facebook and the Pledge5 home page, pops up with information on how to find local volunteer opportunities. A tab on the page asks you to "help spread the word." Click on it and your entire address book of Facebook friends pops up, enabling you to evangelize Pledge5 with just a few keystrokes.

So far most of the organizations using Facebook Connect are social enterprises, like Pledge5, or news outlets, like CNN, soliciting members for discussion groups. Who knows how Facebook users will react when a brokerage asks a member to spread the word about its services. Of course, members can ignore the exhortations to invite friends, the same way they might decline to forward their 25 Random Things.

He also insists that marketing on Facebook isn't obtrusive, and that users can control what kind of advertising they see: Each ad contains a small thumbs-up or thumbs-down button. If a user finds an ad irrelevant, repetitive, or offensive, she clicks thumbs-down, and Facebook records her dissatisfaction. Eventually the inappropriate ads will go away. And when ads are useful, many online users do click on them. Rowley, the California photographer who values Facebook's intimacy, says she recently clicked on a Virgin America ad for tickets to the East Coast when it popped up on her news feed. "I was going there, so it made sense," she says.

Still, the company couldn't have picked a worse time to start wooing marketers in earnest. Online advertising growth is expected to decelerate in 2009 from 17.5% last year to just 8.9%. And historically most of those ad dollars have flowed to portals and other online destinations, not experimental sites and social networks like Facebook. When Sheryl Sandberg arrived at Facebook, a substantial chunk of the company's revenues were still coming from a 2006 deal with Microsoft in which the software behemoth sold traditional banner ads on Facebook pages and the parties split the revenue. But attempts to sell traditional online ads on Facebook and other social-networking sites have failed miserably: Banner ads can sell for as little as 15 cents per 1,000 clicks (compared with, say, \$8 per 1,000 clicks for an ad on a targeted news portal such as Yahoo Auto) because marketers know that members ignore them.

Sandberg acknowledges that Facebook has much more work to do to secure advertisers. "What we have to figure out is, How do we build a monetization machine which is in keeping with what users are doing on the site?" she says. "It's about execution, doing things faster and better, getting more users and more advertisers."

Facebook's march to 200 million users began in earnest in January 2008. That's when the site made translation tools available to international users. Today more than 70% of Facebook users are outside the U.S., and most of them read it in their native language. But anecdotal evidence suggests that American baby-boomers have discovered Facebook in a big way: Some, like Microsoft CEO Steve Ballmer, use the site to keep an eye on their kids' online activities. Others are using it as a networking tool in a bad economy.

The fastest-growing demographic on the site? Women 55 and older, up 175% since September 2008. Cynics might say that if Granny is on Facebook, the site absolutely has jumped the shark. Quite the contrary: Having a broad swath of users is exactly what Zuckerberg wants. The arrival of an older, less web-centric crowd suggests that he has succeeded in making the site easy to use. And Facebook can't become a standardized platform if only cool kids use it. Besides, there doesn't currently seem to be another hot social-networking site that is drawing young users away from Facebook in large numbers.

But the Facebook juggernaut still could very easily go awry: Remember AOL's Instant Messenger? Teenagers lived on it and companies started using it in lieu of e-mail. But AOL never figured out a way to make money on it.

Facebook could meet a similar fate; indeed, it is a little worrisome that neither Zuckerberg nor Sandberg seems to feel any particular urgency about putting Facebook in the black. Zuckerberg prefers to leave the question of revenues to Sandberg, who punts: "I think what's really important is that we are able to fund our expansion, and we're very focused on that," she told me in mid-February. Investors seem pretty passive about it as well. Early board member Jim Breyer, who put in \$1 million of his own money and \$12.7 million from an Accel Partners fund, says that profits are "a secondary consideration in this stage of the growth." He wants to get a return on his investment, but he's not pushing anything now.

And then there's Microsoft, which is in the unusual position of being a Facebook owner, a partner, and, through its Windows Live social network, a competitor. Since taking a stake in Facebook, Microsoft has been working closely with the site to create links between Facebook and the Windows Live social network so that when members update their status message or upload photos on Facebook, that information appears on the Microsoft site too.

Facebook has influenced Microsoft in other ways. Its new operating system, OS 7, features a list of interactions, news, and information that happens to look a lot like Facebook's news feed. Could Microsoft end up buying Facebook outright? Both sides would have much to gain from the arrangement. Facebook investors could get their money out, and Microsoft, which has been searching for a way to deliver more of its software applications over the Internet, would own a viable online platform for selling a new generation of services. But Zuckerberg, like that other famous technology-loving Harvard dropout, seems determined to create a business empire that touches virtually every computer user in the world. Zuckerberg's not interested in selling to Microsoft; he wants to build the next Microsoft. And with 175 million "friends," he's off to a helluva start.

**REPORTER ASSOCIATE Beth Kowitt contributed to this article. ■**

First Published: February 17, 2009: 6:20 AM ET

[Web 2.0 is so over. Welcome to Web 3.0](#)

[Apple has NOT banned Facebook](#)

[Web sites get Obama's word out](#)

**Find this article at:**

[http://money.cnn.com/2009/02/16/technology/hempel\\_facebook.fortune/index.htm](http://money.cnn.com/2009/02/16/technology/hempel_facebook.fortune/index.htm)

 [Click to Print](#)

[SAVE THIS](#) | [EMAIL THIS](#) | [Close](#)

Check the box to include the list of links referenced in the article.

◆ 2007 Cable News Network LP, LLP.